

Message Text

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ACTION NEA-10

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COME-00 TRSE-00 OMB-01 OPIC-06 CIEP-02 (ISO) W

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R 060952Z JUL 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 6945

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS NEW DELHI 9858

E.O. 11652: N/A

TAGS: EIND, EFIN,IN

SUBJECT: RESTRICTIONS ON DIVIDEND PAYMENTS LIFTED

1. EFFECTIVE JULY 6, THE GOI WITHDREW ALL RESTRICTIONS ON THE DECLARATION AND PAYMENT OF DIVIDENDS. THE RESTRICTIONS WERE INTRODUCED IN 1974 AS AN ANTI-INFLATIONARY MEASURE UNDER WHICH COMPANIES COULD NOT DECLARE AND MAKE DIVIDEND PAYMENT OF OVER 12 IN 1975 BUSINESSES WERE ALLOWED TO DECLARE DIVIDENDS OF MORE THAN 12 PERCENT, BUT THE EXCESS WAS TO BE PAID IN TWO EQUAL INSTALLMENTS.

2. COMMENT: THE ELIMINATION OF THE DIVIDEND RESTRICTION IS DESIGNED TO INCREASE PRIVATE SECTOR INVESTMENT AND GIVE A BOOST TO THE LOCAL CAPITAL MARKET. IT IS CONSISTENT WITH A NUMBER OF PRAGMATIC ECONOMIC POLICIES WHICH HAVE RESULTED IN A MORE ACCOMMODATING GOVERNMENT POSTURE TOWARD PRIVATE FIRMS IN INDIA DURING THE PAST YEAR.SAXBE

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